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## AN ENTERPRISE STRATEGIC POSITIONING: BUSINESS PRACTICUM EXPERIMENTATION ON ZARA

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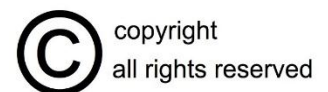
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### ABSTRACT

The doctrine of enterprise and entrepreneurship preaches on the importance of organization, operation and risk-taking adventure for a new business venture. Through the path of great entrepreneurship personas like Mark Zuckerberg, Richard Branson and Steve Wozniak, their self-established businesses experience sparkling wealth and fame. They began with business idea, then translated it into a business plan and decided the relevant size of operation for present and anticipated future and went on to grow their business. In is at this point where the researcher dwells into analyzing and evaluating the strategic position of ZARA by performing PEST, SWOT, Marketing Mix, Marketing Positioning and Competitor Analysis.

**Keywords: SWOT, PEST, Mix, Positioning, Competitor.**



### To Cite This Document

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## **1.0 Company Background**

Zara is a new approach Spanish clothing and accessories retailer in the industry. It was founded by Amancio Ortega and Rosalia Mera in Spain in 1963. INDITEX group is the parent company of this world's largest apparel retailer. INDITEX which is the largest distribution groups also owns other famous brands such as Pull & Bear, Bershka, Massimo Dutti, Uterque and Stradivarius. More than a hundred companies that included in the group are associated with various activities in the firms of textile and fashion design, manufacture and distribution (CUC, 2007). The enhancement of the activities in the company are helped with the use of information technologies and the use of designers instead of individuals. Zara has roughly around 2000 thousands branches global and as of 2017 manages up to 20 clothing collections per year. They offer a wide range of options such as the collections for women, men as well as children as the company is a distributor of apparels. A line of cosmetics, perfumes and household products are also launched by the brand.

## **1.1 Mission & Vision**

In Zara company, their main mission stated that "Through Zara's business model, we aim to contribute to the sustainable development of society and that of the environment with which we interact" (Zara.com). Zara also stated the vision that "Zara is committed to satisfy the wants of our customers. With that, we pledge to continuously innovate our business to improve your experience. We promise to provide new designs made from quality materials that are affordable" (Zara.com).

## **1.2 Business Strategy**

Low-cost leadership is one of Zara's business strategy to sustain their reputation and customer loyalty towards their brand in long-term. In this company, this strategy is mainly based on both of high quality and low prices. The reason why they provide low prices products is because they want fashion to be affordable for everyone. However, they still want to make their products to be seen as high quality products. They changed the stores organization twice a week to remove the products that don't sell well due to their desire of creating high quality products and stay at the forefront of fashion. That way, customers will have the impression of seeing rare, high quality and low prices products when entering the stores. The quality and the price is what makes Zara is already differentiating itself, however that can't change the functional aspect of clothes (Delagarde, 2011).

Next is the diversification strategy. Zara sells accessories to complement their main product, apparel in order to complete their product lines. Zara as well have another diversification which is the unrelated form which is to develop the Zara Home. Zara Home is a retail store specialized in selling home fashion and decoration which emphasizes exclusively in all of its products. Also, products in Zara Home is sold more expensive than its competitors. The retail store now is available in 55 countries including United States.

An intensive strategy applied to Zara which they practice the Market Development strategy when entering new markets with Asian-developing countries as their first targets which include China, India and Indonesia. Zara is currently aiming the Asian market, which they expect much profit to be gained from this promising market. Not to say that Zara also applies the market penetration strategy, mainly in European and American markets instead of just using the market development. With that, the improvement of its online store and customer service in all retail store will be increasing due to the techniques of the strategy.

## **2.0 New Market Segment and PEST analysis**

### **2.1 New Market Segment**

Based on this concept, the “Demographic Segment” can be explored further in terms of targeting the **“Low-Income earners”** who are people that may desire to purchase Zara’s products and can be an enormous potential towards Zara’s market dominance and revenue growth, but are unable to purchase Zara’s products due to the following reasons (see below). Also, Zara can expand the ‘low-income earners’ segment by including **‘Senior Citizen Clothing’** production by the name **“Citizen wear”** for people aged above 50. (see next page)

**First**, Zara produces high fashioned clothing for **mid-income earners**. The amount ‘affordable’ for mid-income earners may be ‘cheap’ for high-income earners. Thus, it can be evaluated that the price charged for ‘mid-income earners’ is a mixture between what a mid-income and high income earner can pay. However, if looked towards ‘low-income earners’, it is pretty expensive. This is because, low-income earners are people who would make purchases but not as frequent if prices are high. (berlinlcalling, 2017)

**Second**, Zara produces **small quantities of clothing** and creates more than 40000 designs per year which shows how short is the lifespan per trend. Due to limited supply and short lifespan, customers are forced to purchase cloths at their first ‘try’ or first ‘look’ because they know that if they were to delay their decision making, the clothing they ‘liked’ will no longer be there at their second visit to Zara, as new designs would have come in by then (maybe next day itself).

Low-income earners wouldn’t want to spend large proportion of money on just 1 pair of clothes when they cannot make frequent purchases.

**Third**, Zara uses **“Standardization method”** where it remakes clothes of the previous old and original designs. For example, Zara’s men collection that follows the Balmain’s design (see image below). As a result, those customers who lack fashion consciousness and are aware of the replication may not be deceived as opposed to ‘original brand’ craving and loyal customers who are spending their money on something that is not brand new. (berlinlcalling, 2017)

**Exhibit 1.0 Balmain's Design**



Source: berlinlcalling, 2017

We suggest Zara to maintain its existing prices and clothing styles and create a new brand that contain goods “stylish yet affordable” specially for low-income earners that are based on discounted and low cost-plus pricing (eg: 2 Shirts for RM 50, 2 jeans at RM 70, applying BOGOF at RM 79). This is like how Padini Concept Store that came up with a new brand “Brands Outlet” with tremendously cheaper prices than Padini. (VGROWTH Investing, 2017)

Zara has many brands: Pull & Bear, Massimo Dutti and Bershka but all cater for either lingerie or clothing for youngster and young adult customers. Therefore, we suggest Zara to start including

**‘Senior Citizen Clothing’** by the name **“Citizen Wear”** under the clothing produced for low-income earners. This is because, senior citizens may not spend a lot of money on clothes, but they may consider to buy if Zara produces comfortable, decent and cheap clothes. (Zara can practise producing citizen wear based on seasons: Mother’s Day/Father’s Day). (Inditex.com, 2017)

**Exhibit 1.1 Senior Citizen Clothing**



Source: DailyCaring, 2017

## **2.2 PEST Analysis**

**First, Political.** There are 2 ways Zara can explore the new segment- ‘start providing clothing for this segment in all their existing clothing outlets’ or ‘build new outlets (Zara Brand Outlet) which just like how they have Massimo Dutti and Bershka’. Following the first option, Zara may face problems if government of the country receiving the new brand clothes (materials for factories) places “Quotas” or “Tariffs”-tax on imports which may force Zara in that country to increase prices to cover up taxes. The second option may not be accepted by the government of some countries whom already have many foreign brands and thus may not permit license for Zara’s Brand Outlet. (Hoang and Ducie, n.d.)

**Second, Economical.** High inflation increases general price level of goods reducing ‘especially’ low income earners to purchase Zara’s clothing (political pressure can create imported inflation); high interest rates will make people to save more rather than spend, and, high exchange rate may lower the country Zara venturing into- to have lower trade balance. However, with Zara offering cheaper clothes for low-income earners, regardless of low economic activity, Zara will still have business due to customers from luxury brands switching to Zara. (Pratap 2017)

**Third, Social: Socio-Cultural.** Zara being an international retailer shows how its new brand is pertaining to various cultures where they must ensure not all their New Brand Outlet follow ‘Standardization Method’-which means selling the exact same type of clothing. Each New Brand outlet should sell based on the specific countries demand and culture. For example: Zara cannot sell revealing clothes for woman in Arabian countries as it is against their culture. Also, Zara cannot sell dull colors to the Bangladeshi population and practice fast changing designs as they prefer bright colors and don’t frequently change their wardrobe collection. (Free PESTEL Analysis, 2017)

**Fourth, Technological.** Zara is present on Facebook, Twitter, Instagram and on zara.com to run e-commerce retailing worldwide. According to Pratap 2017, “In 2014, Zara partnered with Toyota for the application of JIT (Just-In-Time Inventory Control System) and Lean facilities across its manufacturing operations to manage its supply chain activities”. Also using the RFID (Radiofrequency Identification Tagging Objects) system, it has helped Zara achieve better inventory management system allowing Zara’s New Brand Outlet to improve customer experience. (Pratap, 2017)

### **3.0 SWOT Analysis**

#### **3.1 STRENGTHS**

The new Zara's Clothing Brand Outlet that pertains to low-income earners and Citizen Wear is an outlet that sells clothing at reasonable prices as these customers are fashionable but not so particular about trend. All they need is decent quality clothes to wear for a balanced lifestyle. Thus, the strengths Zara holds is that, all obsolete designs (which are still new but become old due to Zara's fast-fashion production trend), excess clothes production and clothes under stock clearance from the existing "Zara" outlets that caters for mid-aged average- income customers can be now transferred to Zara's New Clothing Brand Outlet at significantly lower prices that is affordable for the low-income customers.

This way, Zara need not have to ensure its new designs to be sold out in 10 days; dispose the clothes; stock clothes up in their warehouses (that can increase cost) or even being forced to sell it 'below cost'. This way they reduce warehouse inventory costs and become environmental friendly. Also, there is no need to produce designs within 2 weeks as the new outlet does not need to move too quickly with trends.

This would allow industry workers to have more time to bring out the most unique designs allowing Zara to be dominant in the market through product differentiation. Moreover, Zara need not outsource its work to Asian cheap labor markets as it should maintain getting these new clothing to be produced by the cheap labor supply of Portugal and Galicia so that it can cut shipment costs. Zara saves a huge amount of cost from not doing advertising as their aim is to provide what customers demand, directly thorough their outlets/e-commerce sites.



### **3.2 WEAKNESSES**

Zara produces clothing for mid-income earners. However, while it is affordable for the mid-income earners, it became a very high price for the customers below mid-income earners, which are the low-income earners.

Even if the prices are stated to be according to mid-income earners, but the prices are set that concerns to high-income earners. Thus, even when the low-income earners still purchase the items, but they won't be buying as frequent as the mid and high-income earners. As buyers continuously search for cheaper prices, a relatively large amount of products must be produced by Zara to enjoy economies of scale.

Therefore, unique items cannot be simply produced which would allow for a higher price tag (Kumar and Linguri, 2005). Also, the warehouse cost increase due to the frequency of Zara producing is lesser for low-income earners, because they are not particular to trend as they are only into high and fashionable clothes.

### **3.3 OPPORTUNITY**

Zara can retain a large customer base such as by continuously improving its range and developing new products daily such as by producing the senior-citizen clothing based on the low-income earners. Also, by having seasonal prices in the store, it is beneficial for the elderly ones as they don't always purchase the expensive items sold. Because of new products are rapidly being introduced, customers will potentially visit the stores more often than competitor stores. Substantial opportunities can be offered with a strong strategy and need to be developed, to attract more support from customer daily (Mittal, 1988). Job employment can be created as more demand for low-income earner and senior-citizen clothing increasing in the firm such as by hiring the suppliers.

### **3.4 THREATS**

In Zara, the most possible threat that can happen is when there are new market entrants in the company. Since Zara might be the only company that has the strategy of developing the production for the low-income earners and senior-citizen, there is a high potential of the competitor such as H&M and Primark entering Zara company and use their concepts to improvise their strategy to increase their quality of their brand. Besides that, Zara's competitors can as well reduce prices from Zara that can charge a higher price to produce new product.

#### 4.1 Zara's Marketing Plan Mix:



#### **4.1.1 Product**

Zara's position in today's fashion industry clarifies that it's not a luxury brand, rather it can be called as a brand for everyone which provides good quality products with affordable price tags. The potential customers of Zara are eager to buy fancy fashionable products but are also sensitive to the prices. For such customers and market Zara instead of producing more quantities per style it produces more quantities of style. Zara keeps considering new products and develop features like product lines for charity or VIP presents in its collection. Each year Zara ends up coming with around 11,000 different products.

#### **4.1.2 Price**

Zara is very sensitive towards its customers who are sensitive to the price tags and for such customers Zara regularly comes up with the best products with the best price tags that are easily afforded by its customers. Cost effectively influences also the supply chain management which requires a fast decision making process.

#### **4.1.3 Place and Distribution**

Zara today is one of the most leading clothing brand which welcomes its customers in about 1763 stores in almost 80 different countries.

In an industry that traditionally allows retailers to change a maximum of 20 percent of their orders once the season has started, Zara lets them adjust 40 to 50 percent. In this way, Zara avoids costly overproduction and the subsequent sales and discounting prevalent in the industry.

#### **4.1.4 Promotion**

For the promotion of its products Zara holds specific campaigns in different countries to attract customers and attain their loyalty. Like other traditional companies, Zara does not focus on outdoor marketing instead they sponsor celebrities and models to promote their products, and in this way they end up with trend setting products.

## **4.2 Market Positioning**

Zara company's goal from always is to provide its customers with best high fashion able products available in the market with an amazing affordable price tag.

### **4.2.1 Specialization**

Zara is specialized in its complete value chain from the development of raw materials to successful sold out stock. Zara has an amazing stock rotation every 15 day, picking up new styles producing new articles and its arrival in the market in under 2 weeks. The online shop has to be improved in functionality, process handling, shipping and return service. First the presentation of the shop has to be developed in multi functionality as well with dress room option. Furthermore, it needs a fancier look by multi-functionality and in addition efficient mobile application for e-commerce.

### **4.2.2 Differentiation**

Zara's differentiation is and competitive advantage is dominated by low-cost leadership, product differentiation and more focus on market niche. Because of the advantage of Zara's strong brand, it is inalienable to define a life style spirit by generating Zara's world on social media. Zara's outstanding range of fancy, trendy products needs to be reflected over social media. For example, a Facebook contest where a customer can win a photo shooting with Zara. Every customer of Zara can be starlet and appear as a shooting star for social media campaign.

### **4.2.3 Segmentation**

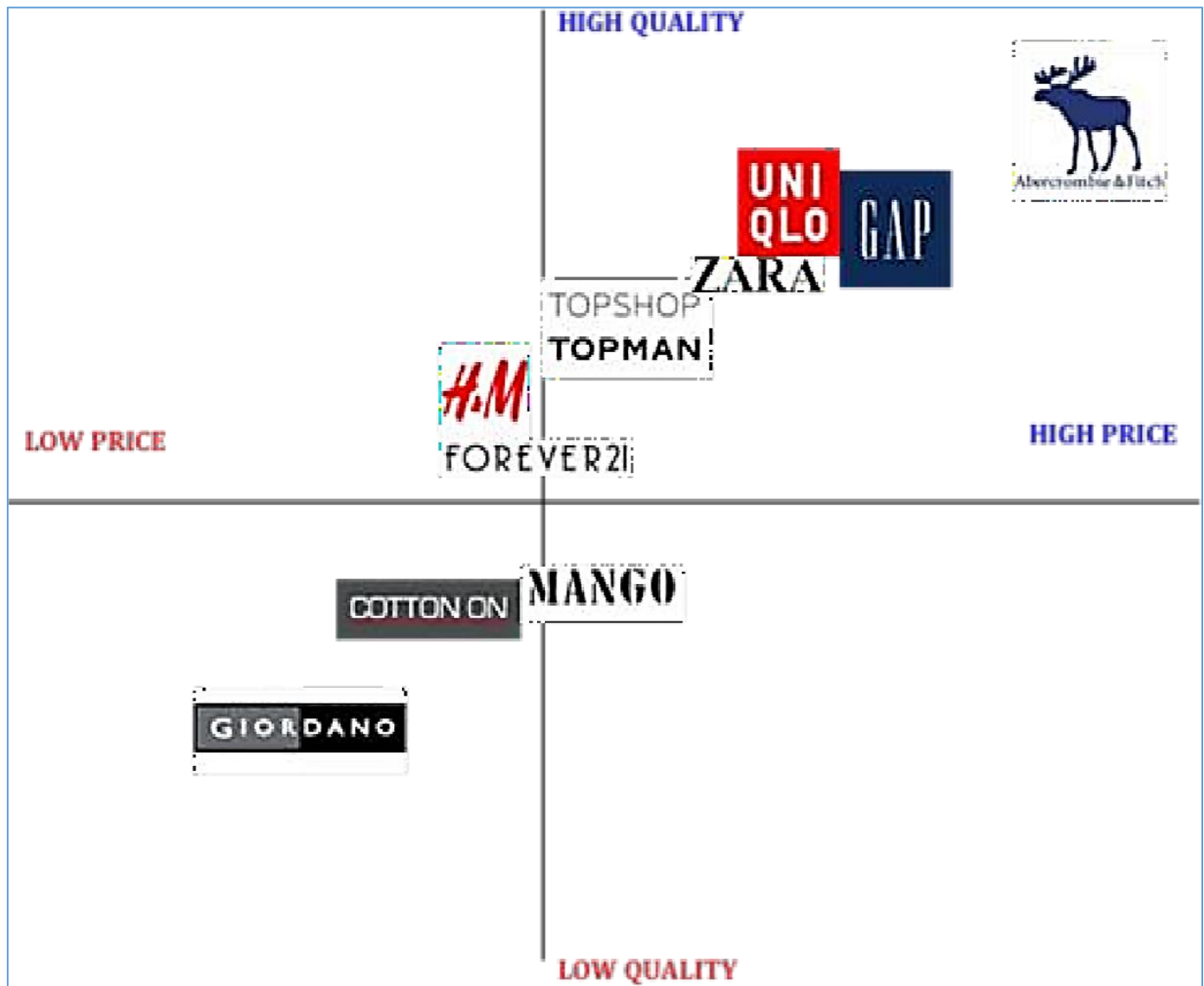
Segmentation in Zara is the segmentation of Zara's potential customers who are most appreciated is on a demographic point of view. For example, a woman customer up to 35 years of age, who prioritize fashion as her lifestyle, who earns up to \$60k per year and graduated school. Furthermore, on psychographic aspect Zara's customers are ambitions and want to demonstrate it by fancy trends, have dreams in life and want to gain the good addressing through the dressing.

### **4.2.4 Concentration**

Zara has from always concentrated in being the first and the best to provide the market with the best fashionable items in the most affordable price range. It is consistent towards producing quantities of style and global expenditures. On a global online sales strategy, the investment could be held on a lower-budget; however, the logistics and the supply chains must be built into the

ecommerce strategy. The implementation of social media such as Facebook, YouTube etc. is also necessary to reach the ideal Zara customer worldwide.

### 4.3 Competitors Analysis



Zara is one of the most persuaded brands in today's clothing market world. The company has gone through a lot to sustain its today position in the market. The competitors are the rival brands or company experiencing the same market, same customers and offering similar products. Zara like every other company also has a lot of competitors in the market like H&M, TopMan, UNIQLO and GAP but out of all Zara has always been in competition with H&M.

H&M is also a clothing company similar to Zara offering a wide range of cloths for men, women and kids. H&M has 20 production offices around the world, 700 independent suppliers and has 1345 retail outlets in 24 different countries.

Though H&M is in business since 1947 while Zara entered the market in 1975, but strategy has been the edge of Zara to gain competitive advantage in the and being the first to be approached by the customers for best fashionable products in the most mediocre price range. And for being better Zara went against the conventional strategy which other companies not event dare to pursue. Unlike H&M and many other companies Zara has an unconventional strategy that works in making the products of the company more anticipated by the customers.



Quarterly			
(Jan '10)	Annual		
(2009)	Annual		
(TTM)			
Net Profit Margin	14.66%	12.32%	12.32%
Operating Margin	19.05%	16.56%	16.56%
EBITD Margin	-	21.84%	21.84%
Return on Average Assets	26.39%	18.46%	18.46%
Return on Average Equity	45.06%	31.57%	31.57%
Employees	69,240	-	-

Table1: Key Stats & Ratios (ZARA)

Quarterly			
(Feb '10)	Annual		
(2008)	Annual		
(TTM)			
Net Profit Margin	13.72%	15.79%	16.11%
Operating Margin	19.22%	22.36%	22.75%
EBITD Margin	-	24.74%	25.15%
Return on Average Assets	25.05%	31.41%	31.20%
Return on Average Equity	31.74%	40.21%	38.91%
Employees	40,368	-	-

Table2: Key Stats & Ratios (H&M)

The table shows that as of the start this year Zara has been very productive in terms of return of average assets and equity as well, against its competitor H&M. This shows that the company's starting performance is at a good start. And it will likely continue to be productive in the long run.

## **5.0 Zara's Marketing Programs**

### **5.1 Previous Marketing Programs**

A marketing program is a coordinated, thoughtfully designed set of activities that help you achieve your marketing objectives. Your marketing objectives are strategic sales goals that fit your strengths and are a good way to stretch your business in its current situation (dummies, 2017). Zara has launched multiple marketing programs on different occasions according to the market segment requirements. Some of the marketing programs worked for other market segments while for achieving target market in particular segment ZARA designed the special programs.

As the world is now becoming digital, many marketers initiate the digital marketing campaign. Zara also created its own Facebook page, Twitter account, YouTube, and also Instagram accounts. More than 16 million people liked Zara 's FB page and more than 300 thousand people followed Zara on Twitter, thousands of people also subscribed to Zara 's channel on YouTube.

ZARA spare fairly low budget for advertising expenses which ultimately results in cost reduction of the products. Due to this program ZARA maintains the prices and provide customers the product they can easily afford. This strategy is effective as ZARA targeting low income people in its new market segment (O.C. Ferrell, 2014).

Another marketing program by ZARA is the way items being displayed. Whole outfit combinations would display the offer in ways that would help clients envision how pieces could match with one another, only one size per item would be on display to show availability and enable the display of more products, tables displaying products were low and synched well with the store dynamic so customers could see "the whole" store upon entering.

This made the customers to come back again and see what is new for them. This is really effective strategy for new market segments as people doesn't like to spend money on the same thing again and especially a low-income earner who is more concerned about its spending.

Zara's main investment in communication with customers was through its POS (point of sales) and product offer. To that end, the annual collection, individual product quantities and size of production runs were three of the main responsibilities given to Zara's marketing director, alongside definition of product displays and overall store image.

Zara invested highly in locating its stores in prime locations and setting the right environments for their products to "speak". Due to the rapid production cycles, Zara stores were tailored to transmit an environment of "scarcity and opportunity" where usual customers knew to buy products as soon as they saw them because the same item would probably not be there the next day. This also gives a low-income earner a satisfaction that the thing he is purchasing is unique and worth it.

## **5.2 Future Marketing Programs**

As ZARA has all these marketing programs which are resulting in efficiency of business and enabling business to be more trusted by the consumers however ZARA can adopt some other marketing programs which could be helpful for forming new market segments in different areas. ZARA can collaborate with different companies to give out special discounts.

When people would use a specific service given by some company they can also enjoy discounts on shopping with ZARA. This way more and more people be willing to come and shop as they would find it more affordable and those who are not aware of products quality and life of ZARA products, would know eventually when they will buy the product. ZARA can attract many customers by this way. When people pay by credit card they usually get discounts, so ZARA can also collaborate with those banks where it is starting its new market segment.

ZARA can also offer coupons after the purchase with the condition of giving an online feedback. This way company will know about the customer's interest and opinions and also boost its sales. This will help company to get the survey data to improve itself without spending extra money for conducting surveys and feedbacks. These marketing programs can help ZARA to achieve its target market and goals.

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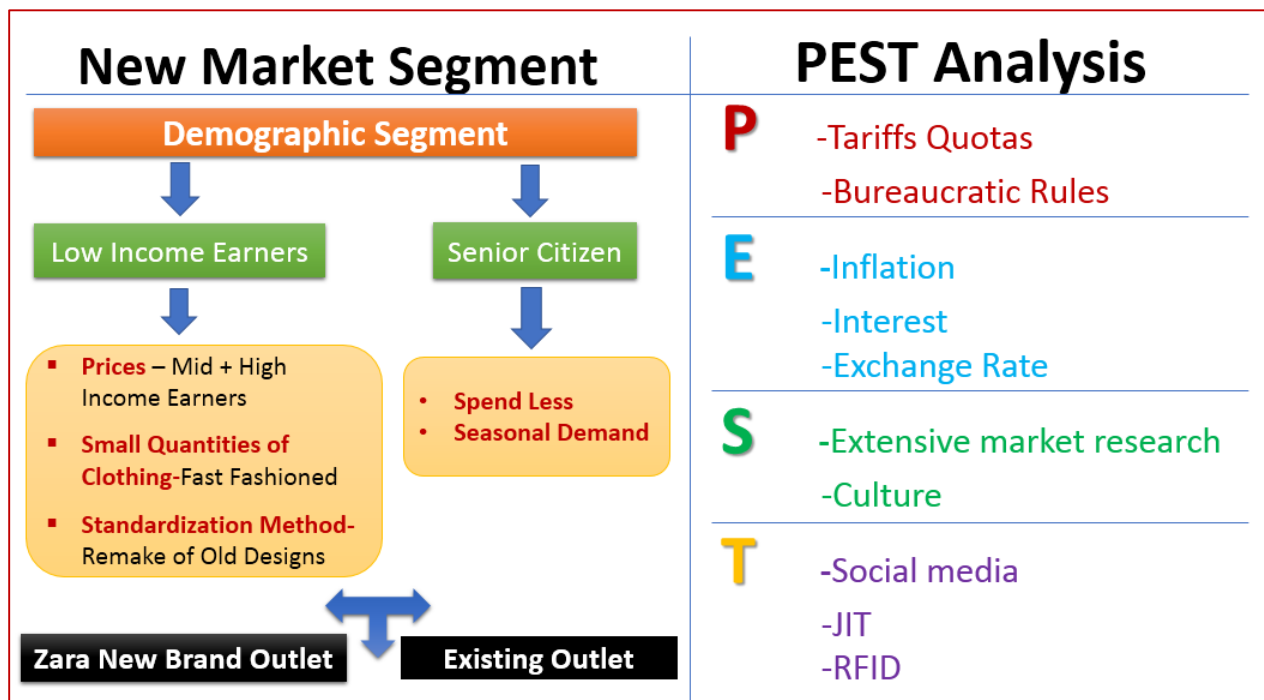
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# NOTES

